

Message Text

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PAGE 01 ISLAMA 09846 140724Z

21-12

ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 DRC-01 IO-14 /122 W

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R 131056Z NOV 73

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2046

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E.O. 11652: N/A

TAGS: EGEN, EFIN, PK

SUBJ: GOP'S INTEREST IN NEGOTIATING COMMERCIAL BANK CREDITS

1. AT CONCLUSION OF DISCUSSION ON OTHER MATTERS, ECON COUNS RAISED WITH SEC-GEN FINANCE KAZI GOP'S APPROACHES TO SEVERAL AMERICAN BANKS FOR CREDITS.

2. KAZI SAID NEGOTIATIONS ALSO BEING CARRIED ON WITH BRITISH AND OTHER BANKS, CENTERING AROUND CREDITS OF THREE YEARS OR SO.

3. ECON COUNS CALLED ATTENTION TO CURRENT GOLD AND FX POSITION, WHICH IS CONSIDERABLY IMPROVED OVER LAST YEAR. KAZI AGREED, TERMING THE PRESENT POSITION "COMFORTABLE", WHILE CAUTIONING THAT CURRENT FIGURE OF \$410 MILLION IS LESS THAN EQUIVALENT TO SAME AMOUNT A YEAR OR TWO AGO, IN CONTEXT DEVALUATIONS AND INFLATION.

4. QUESTIONED ON AMOUNT OF BANK CREDITS BEING SOUGHT, KAZI SAID THAT ORIGINAL ESTIMATES OF AMOUNTS DESIRED HAVE BEEN SCALED DOWN, AND PERHAPS \$50 MILLION WOULD BE SUFFICIENT. AMONG FAVORABLE FACTORS WAS REDUCED ESTIMATE OF COTTON DAMAGE AS RESULT RECENT FLOODS. GOP IS ALSO ARRANGING INCREASED DRAWDOWNS WITH IMF. UTILITY OF BANK LOANS

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PAGE 02 ISLAMA 09846 140724Z

WOULD BE TO GUARD AGAINST CONTINGENCY OF COTTON SLUMP ON

WORLD MARKETS. ALREADY THERE HAS BEEN MODERATE DECLINE, HE OBSERVED, AND ONE COULD NOT BE SURE OF FUTURE PRICE MOVEMENT. A SHARP SLUMP ON COTTON MARKETS WOULD SHAKE CONFIDENCE IN GOP ABILITY MEET OBLIGATIONS, AND BANK LOANS WOULD AFFORD CUSHION AGAINST THIS.

5. KAZI VOLUNTEERED, IN ADDITION, THAT SUCH BANK LOANS WOULD IN FACT BE VERY CHEAP FOR GOP DESPITE HIGH INTEREST RATES: GOP DEPOSITS HERE EARN 13 PERCENT, WITHIN 1/2 OF ONE PERCENT OR SO OF WHAT INTEREST COSTS WOULD BE. MOREOVER, IF MARKET PRICES FOR COTTON HOLD WELL OR RISE, IT WOULD BE POSSIBLE FOR GOP TO REPAY LOANS IN ADVANCE.
DECON 6/30/74.SOBER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, COMMERCIAL BANKS, BANK LOANS, CREDITS, NEGOTIATIONS, FLOODS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973ISLAMA09846
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731138/aaaabboz.tel
Line Count: 74
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 07 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Jan-2002 by willialc>; APPROVED <23-Jan-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOP'S INTEREST IN NEGOTIATING COMMERCIAL BANK CREDITS
TAGS: EGEN, EFIN, PK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005